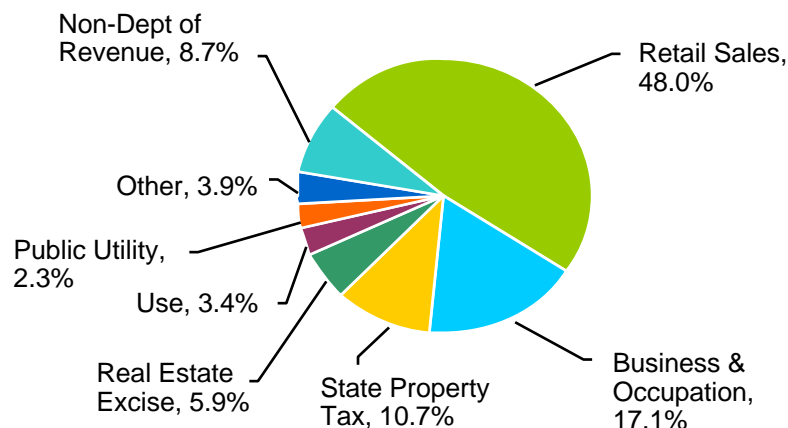


# Business Compliance Audits

Revenue collects 91.3% of State General Fund Revenues



FY05



## Top 1,000 accounts pay 48% of tax:

45% are based *out-of-state*  
39% are in the retail industry

## Top 100 accounts pay 24% of tax.

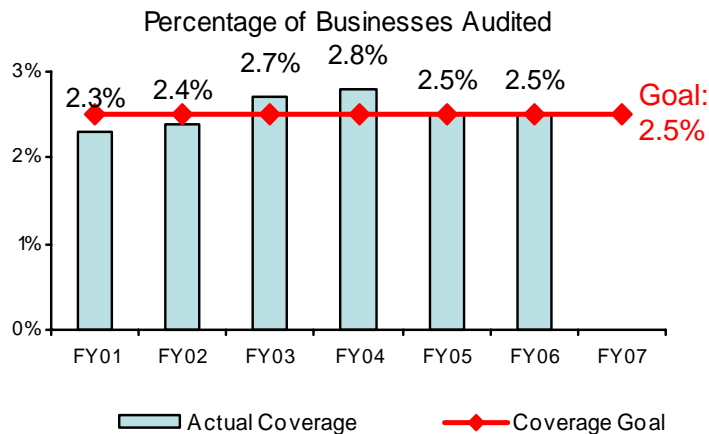
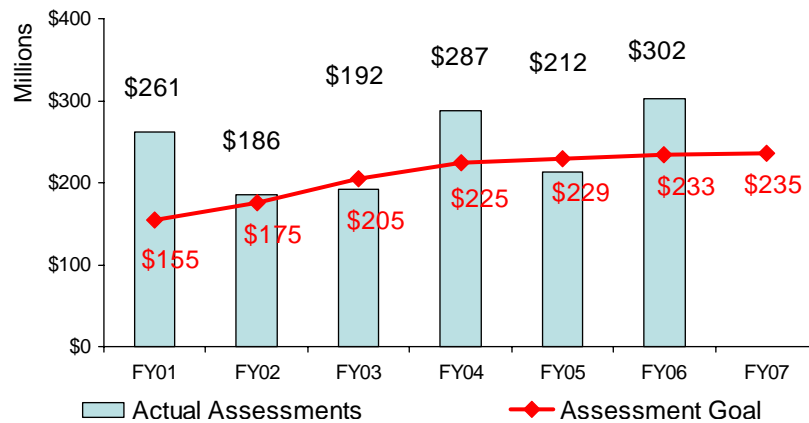
Data notes: Source: Tax Statistics 2005 and 2006 Compliance Study.

## Background Snapshot

- Revenue collects \$15 billion a year. There are 462,532 active business accounts.
- 98.2% of taxes are voluntarily paid.
- High rates of voluntary reporting are due to education and outreach, and enforcement.
- Enforcement activities consist of collection activities, tax discovery, targeted education, and business compliance audits.
- Resources are allocated based on risk of noncompliance.
- The strategy behind the audit program is to balance revenue collection with audit coverage (equity and education) to encourage voluntarily compliance.
- Revenue audits 2.5% of all active accounts per year.

# Business Compliance Audits

*Our audit assessment goal is \$235.4 million for FY07*



Data notes: Agency Performance Measures.

## Background and Analysis

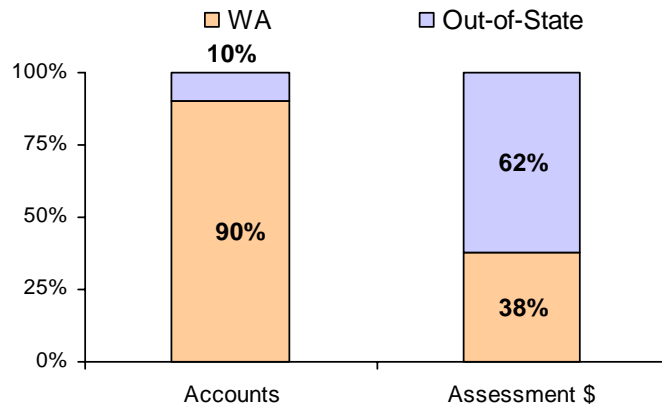
- While we exceeded the 03-05 Biennial goal, in FY05 we focused on refund verifications.
- FY06 includes a few large assessments and better audit selection methodology using our Data Warehouse.
- Audit Selection includes:
  - Identifying outliers in an industry.
  - Using the data warehouse to compare information reported to third parties with information reported to Revenue.
  - Top 1,000 accounts are typically audited every 4-5 years (statutory audit period).
  - Random selection (approximately 7%).

## Action Plan

- Benchmarking with states and countries to determine optimal audit coverage (Mike Grundhoffer; Phase 1 completed/Phase 2 June 2007).
- Collaborate with L&I and ESD to share information (Mike Grundhoffer and Nicole Ross; October 2006).

# Business Compliance Audits

Where do our assessment dollars originate?



Assessment dollars by tax type:

Tax Type	Out-of-State	Washington
Business and Occupation Tax ("B&O")	39%	25%
Sales Tax	29%	30%
Use Tax	26%	44%
Other Taxes	6%	1%

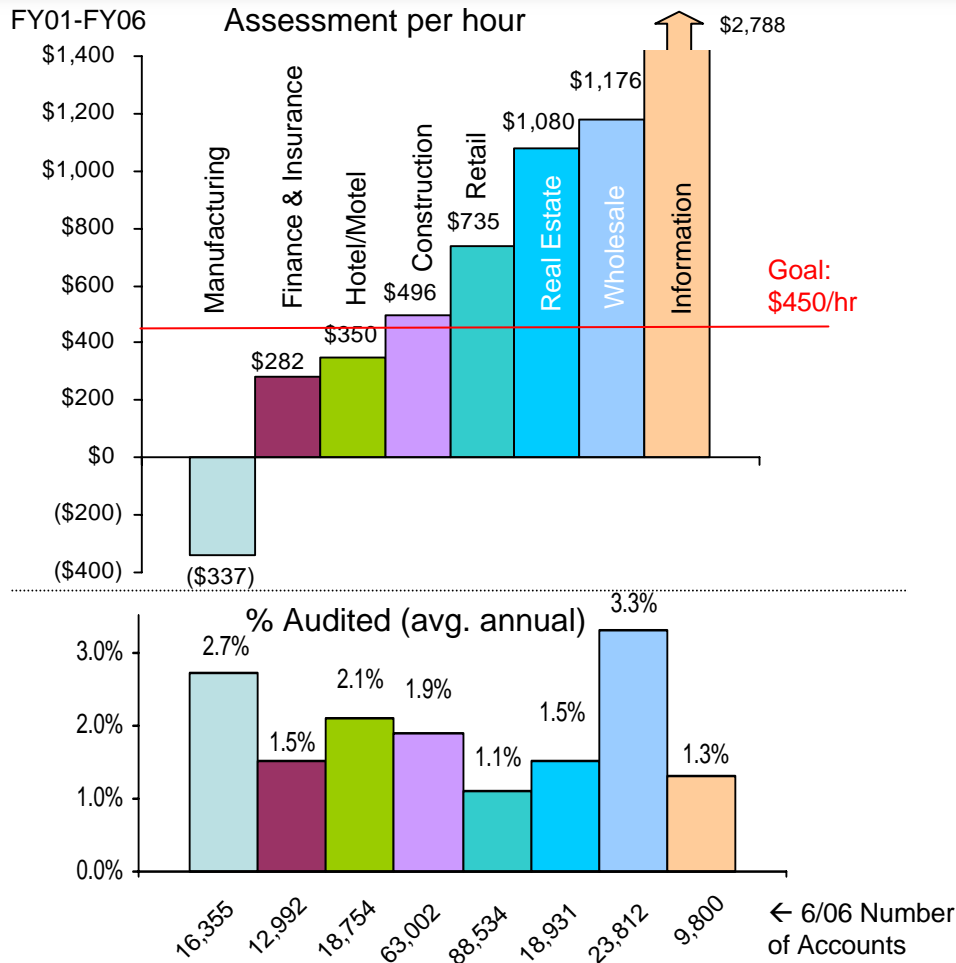
**Data notes:** Assessment dollars are average for FY01-FY06.

## Analysis

- *Out-of-state* businesses account for:
  - 10% of the accounts
  - 62% of the audit assessment dollars
- Change in resources located *out-of-state*:
  - July 2000 32 auditors
  - July 2006 50 auditors
- Compared to other states, we have the largest concentration of *out-of-state* auditors.
- Many of the *out-of-state* accounts audited are large multi-state firms, including global firms, and are complex.
- The B&O tax represents the largest tax type percentage of *out-of-state* assessments; the use tax represents the largest tax type percentage of *in-state* assessments.

# Business Compliance Audits

*We audit all industries; and balance audit coverage with revenue generation*



Data notes: Above graphs show results and presence. Within any given industry, there are variations year to year but not generally a trend. Overall audit coverage goal is 2.5% per year but it will vary by industry.

## Background & Analysis

- This is just a sample of industries; we audit all industries.
- With changes in tax laws and complex issues, many manufacturers now overpay.
- The Real Estate industry has a high overall (FY01 to FY06) rate of return but most of it was from one year (FY01 \$4,776); subsequent years assessment per hour are “average”.
- The Information industry has a high recovery but a low audit coverage.
- As audit coverage in an industry increases, voluntary compliance should increase.

## Action Plan

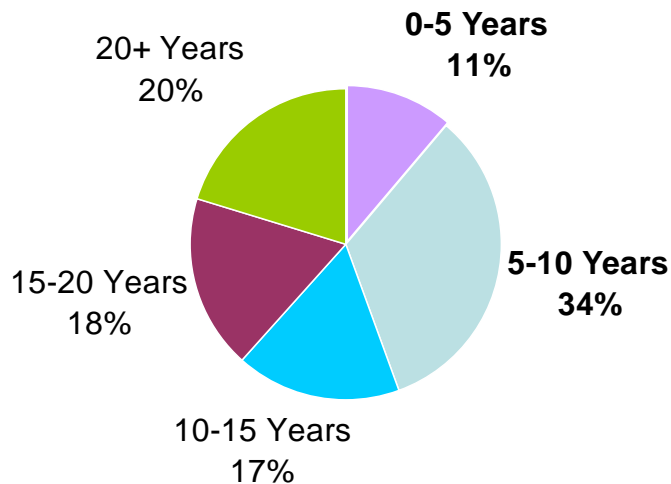
- Increase audit coverage in industries with high assessments per hour (Mike Grundhoffer; implement immediately; review quarterly at agency GMAP presentations).

# Business Compliance Audits

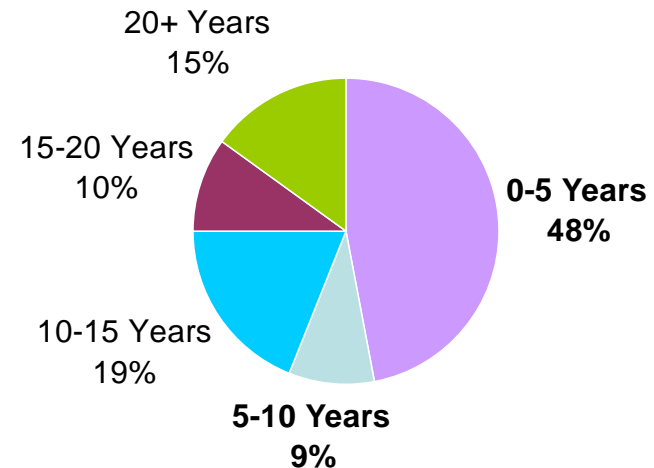
*The percentage of auditors with fewer than 10 years experience has increased*



**June 2001**



**June 2006**



## Analysis

- Higher percentage of new auditors; experienced auditors are spending time training new auditors.
- In 2004, entry level auditor turnover was 31.9%.
- We have maintained our assessment levels.

## Action Plan

- Implement agency's Strategic Business Plan initiative to attract and retain highly qualified and diverse employees (Chris Parsons; June 2007).
- Develop comprehensive training strategy to accelerate auditor development (Mike Grundhoffer; March 2007).

# Business Compliance Audits

*Taxpayer feedback is positive*



## 750 Taxpayers Surveyed

Response:

- 89% - Overall satisfaction with division.
- 90% - Audit scheduled with a minimum of inconvenience.
- 93% - Audit was explained to them so that they understood.
- 87% - Understanding of reporting responsibility increased.
- 68% - Taxpayers maintain electronic records.
- 33% - Interested in Co-Managed Audit Program.

## Compliment & Complaint Tracking

72% are compliments.

## Action Plan

- Provide information to taxpayers about electronic records and other audit programs on Internet (Mike Grundhoffer; December 2006).
- Revenue's Strategic Business Plan *Trends in Industry Practices* - monthly seminars (Jan Bianchi; June 2007).
- Next post audit survey will be conducted June 2007 (Mike Grundhoffer).

**Data notes:** Survey was conducted April 2005. Sent survey to random 750 taxpayers, 51% responded. Of respondents, 66% owed money, 14% received refunds, and 37% had no tax adjustment. Compliment/Complaint Tracking in place since March 2004; data is for 3/04 - 6/06.